



Fairfax County Internal Audit Office

Department of Public Safety Communications
Procurement Card Audit
Final Report

September 2010

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Executive Summary

We reviewed the Department of Public Safety Communications (DPSC) procurement card program which consisted of nine cards at the time of our review. The audit population included 298 transactions and \$64,790 of card expenditures incurred during the period of February 2009 through January 2010. There were seven control weakness noted. Five of the control weakness were cited in the March 2008 Procurement Assistance and Compliance (PAC) Review completed by the Department of Purchasing and Supply Management (DPSM). Due to the nature of the control weakness, there is a high risk of noncompliance with policies and procedures, unauthorized transactions and improper purchases. It is imperative that DPSC strengthen controls to reduce these risks.

Our review of procurement cards revealed that the controls needed to be strengthened in the following areas:

1. There was no evidence to indicate that a weekly review of procurement card usage was completed for the three months reviewed.
2. Eighteen of 25 transactions tested were not recorded in the transaction log.
3. While there was evidence to indicate that procurement card reconciliations were being performed, there was no evidence to indicate who performed procurement card reconciliations and when they were being performed.
4. A microwave was purchased for use by employees and \$316 was spent for office Christmas decorations, neither transaction appeared to have a business purpose. Additionally, the business purpose for a \$142 pizza purchase was not documented.
5. Employee Acknowledgement Disclosure Forms were not on file for five card users.
6. Procurement card limits were not in line with card usage. The actual spending for four cards was significantly lower than the limits set for these cards by the department.
7. Internal Control Procedures revisions recommended during the March 2008 PAC Review were not completed and sent to Department of Purchase and Supply Management for approval.

Control weaknesses numbers two, four, five, six and seven noted above were previously cited in the March 2008 PAC Review.

Scope and Objectives

This audit was performed as part of our fiscal year 2010 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The

audit covered the period of February 2009 through January 2010, and our audit objectives were to determine if the department:

1. Had developed written internal procedures in accordance with PM 12-02.
2. Followed the county rules and procedures for the use of procurement cards.
3. Had adequate internal control procedures in place and that these procedures were being followed by cardholders.
4. Transactions were reasonable, in line with policy, and did not appear to be fraudulent.

Methodology

Audit methodology included a review and analysis of internal control procedures, procurement card expenditures and related accounting records of the department. Our audit approach included an examination of procurement card expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with county PM 12-02 *Use of the County Procurement Card*. Information was extracted from the procurement card management system for sampling and verification to source documentation during the audit; however, our audit did not include an independent review of the system controls. Our transaction testing did not rely on system controls; therefore, this was not a scope limitation.

Findings, Recommendations, and Management

1. Weekly Transaction Report Review

There was no evidence to indicate that a weekly review of procurement card usage was being completed for the three months reviewed. Procedural Memorandum 12-02 requires that all agencies review weekly transaction reports for unusual or unauthorized transactions. A review of the Payment Net log-in activity revealed that DPSC did not log into the system on a weekly basis for several months reviewed; an indication that weekly transaction reviews were not performed.

Failure to review the weekly transaction reports increases the risk that inappropriate purchases will not be identified in a timely manner.

Recommendation: We recommend that DPSC perform and document weekly reviews of procurement card transaction reports which contain all items posted to the bank for the prior week. This should be evidenced by the reviewer initialing and dating a printed copy of the weekly transaction report.

Management Response: The Payment Net transaction report is now created weekly on Monday and reviewed to confirm that all purchases are valid. The report is signed and dated upon completion of the review.

2. Transaction Log

The card activity log was not a complete reflection of the department's procurement card spending. We noted that 18 of 25 or 72% of the transactions tested were omitted from the transaction log.

Procedural Memorandum 12-02 states that a system that tracks expenditures as they occur must be in place. Agencies may use an appropriate manual or computer log to record both debit and credit transactions. Entries must be contemporaneous to give up-to-date information on funds expended and the applicable card user. This control weakness was previously cited in the March 2008 PAC Review.

Recommendation: We recommend that DPSC maintain a transaction log which accurately reflects all procurement card activity, to ensure that card use is properly monitored.

Management Response: All procurement card holders will now maintain a separate log of the transactions made on the procurement cards for which they are responsible. Transaction logs will be reviewed as part of the monthly reconciliation.

3. Procurement Card Reconciliation

While there was evidence to indicate that procurement card reconciliations were being performed, there was no evidence to indicate who performed procurement card reconciliations or when they were being performed for the three months reviewed.

Procedural Memorandum 12-02 requires that all agencies reconcile receipts and charge slips to the weekly transaction report or to the monthly bank statement in a timely manner. In addition, these reports are to be reconciled to amounts posted as expenditures in FAMIS. Once completed, the reconciler is required to sign and date the documents settled.

Failure to document the date reconciliation is performed and the name of the reconciler decreases the accountability for processing the reconciliation in a complete and timely manner, by someone independent of card purchases.

Recommendation: Once the procurement card reconciliation is completed, the preparer should sign and date the report.

Management Response: Staff performing the reconciliation now ensures that the report is signed and dated in accordance with the recommendations in this report.

4. Business Purpose

A microwave was purchased for use by employees and \$316 was spent on office christmas decorations; neither transaction appeared to have a proper business

purpose. Additionally, a \$142 pizza purchase did not have a documented business purpose.

Procedural Memorandum 12-02 requires that agencies document a business purpose for each purchase. Allowing purchases that do not appear to have a proper business use increases the risk of inappropriate card charges and possible negative publicity for the county. This control weakness was previously cited in the March 2008 PAC Review.

Recommendation: DPSC should use cards only for purchases considered to be proper business transactions and should ensure that written documentation is on file to support the business nature of the purchase.

Management Response: Authorized procurement card users will be required to read and acknowledge a memo reinforcing the rules regarding the proper business use of purchases and their documentation. Card holders will ensure that justification for the business use of each transaction is documented on the procurement card transaction log. The anticipated completion date is September 17, 2010.

5. Employee Acknowledgement Disclosure Forms

During our transaction testing, we noted five employees who used procurement cards but did not have signed Employee Acknowledgement Disclosure Forms on file.

Procedural Memorandum 12-02 requires that all first-time card users sign and date an Employee Acknowledgement Disclosure Form. The form acknowledges the employee's responsibilities regarding card use and sets forth consequences for misuse. The agency program manager is to maintain the signed forms for at least two years following the employee's departure from the agency. This control weakness was previously cited in the March 2008 PAC Review.

Recommendation: DPSC should ensure that each employee using a procurement card sign and date an Employee Acknowledgement Disclosure Form, with the forms retained as required by PM 12-02.

Management Response: A list of authorized card users, which includes only those personnel who have a signed Employee Acknowledgement Disclosure Form and a copy of a satisfactorily passed procurement card policy and procedure test on file, will be placed by the procurement card manager at the front of each procurement card transaction log. The card holder will be required to verify the personnel requesting use of the procurement card is authorized prior to it being issued.

6. Card Limits

An analysis performed on card limitation controls on DPSC's cards for the period February 2009 through January 2010, revealed that the monthly spending limits were set higher than the actual usage for four cards. For instance, the highest

monthly spending for Travel 1 card was \$1,469 with a monthly credit limit of \$20,000 and the highest monthly spending for the Travel 2 card was \$1,580 with a monthly credit limit of \$7,500.

The county has limited dispute rights for fraudulent charges on work group cards and agencies are liable for fraudulent charges until such cards are reported to the bank as lost or stolen. Setting the procurement card limits higher than necessary increases the county's exposure in the event the card is lost, stolen, or improperly used by a county employee. This control weakness was cited in the March 2008 PAC Review.

Recommendation: We recommend the DPSC review procurement card usage and determine appropriate limits for each procurement card. The limits for each card should then be set accordingly, based on actual usage and needs.

Management Response: Agency procurement card limits will be reviewed by the procurement card manager and the Department of Purchasing & Supply Management (DPSM). A request has been made by the procurement card manager to adjust the agency's procurement card limits to a more appropriate level reflecting actual usage and needs.

7. Internal Control Procedures

Internal Control Procedure revisions recommended by DPSM in the March 2008 PAC Review were not completed and sent to DPSM for approval. Procedural Memorandum 12-02 requires all using agencies to establish procurement card internal control procedures that govern card security, use, and accounting specific to their operations. These procedures and any revisions are to be submitted to the DPSM program administrator for approval.

Failure to obtain approval for updated departmental internal control procedures increases the risk that operating procurement card procedures might not be in compliance with county policy. This control weakness was cited in the March 2008 PAC Review.

Recommendation: We recommend that DPSC submit updated internal control procedures to DPSM for approval, in accordance with PM 12-02.

Management Response: Internal Control Procedures will be revised by procurement card manager and staff to reflect recommendations from the DPSM 2008 PAC Review as well as this report, and will be submitted to DPSM for approval. The anticipated completion date is September 24, 2010.